



Davis could seize grid as last resort; mulling over plan to curtail business use

Seize the energy grid?

On the eve of a new round of rescue negotiations with a reluctant Pacific Gas & Electric Co., Gov. Gray Davis suggested Wednesday that as a last resort the state could seize the utility's prized electrical transmission system through eminent domain. That saber-rattling cut against the grain of some rare good news in the state's continuing electricity crisis. The energy supply crunch eased slightly as grid operators pumped up the cushion between supply and demand, and for the first time in more than five weeks the statewide power grid was operating under a relatively mild Stage 1 emergency. Negotiations with the state's two other big utilities--Southern California Edison and San Diego Gas & Electric--were described by a Davis aide as going "very well."

Power sales order

Hinting at a possible settlement of the lawsuit, U.S. District Judge Frank C. Damrell Jr. has extended to 5 p.m. Friday his order that three generating companies continue to sell power on an emergency basis to the California Independent System Operator. In an order issued late Wednesday, the judge said his action stems from a talk he had with attorneys for the companies, the ISO and the state in a telephone conference call Tuesday. The attorneys "advised the court that they were continuing to discuss among themselves the matters pending before the court," Damrell said in the order.

Generators want to be paid first

Gov. Gray Davis said yesterday that more than 10 generators have reached an agreement with the state on long-term power contracts but will not sign until two nearly bankrupt utilities can pay off their huge debts. Davis met yesterday with the top executive of Southern California Edison and may meet today with leaders of Pacific Gas and Electric and San Diego Gas and Electric to discuss the state purchase of their transmission systems in exchange for aid in paying off the debt.

The governor declared that he "will not sign off on a resolution of this issue" unless the state acquires the transmission systems of Edison, PG&E and SDG&E.

Install real time meters to avoid summer blackouts

Gov. Gray Davis is mulling over an unprecedented retrofitting of electricity meters statewide to charge "real-time" prices to industries and other big power users as a way to ward off summer blackouts.

The ambitious proposal, pushed by University of California economists, would dramatically change how factories, big office parks and other industries are charged for electricity. Prices would be cheap during non-peak hours and climb when demand skyrockets. Supporters say this hour-to-hour pricing would curtail usage on hot summer afternoons, when California will be forced to pay whopping last-minute prices to keep the lights on statewide.

In a related story, California energy officials said Wednesday that they should have enough small emergency power plants to meet one of Gov. Gray Davis' goals for averting blackouts this summer. About a dozen potential sites for the plants are in the Bay Area. The mini-plants -- dubbed "peakers" because they would be designed to operate primarily during periods of peak energy use -- would generate from 18 to 276 megawatts, with one megawatt sufficient to power 1,000 homes. Typical large generators are around 600 megawatts.

FERC says "No" to Davis

Federal regulators Wednesday denied Davis' request for a hearing on PG&E's corporate restructuring. The Federal Energy Regulatory Commission voted 2-1 without comment to reject the request.

Power suppliers worried that the restructuring would prevent them from getting paid hundreds of millions of dollars the utility owes them. Consumer groups criticized the move as a "shell game" to hide profits from the sale of power plants.

Commissioner William Massey, who opposed the restructuring, voted in favor of a new hearing. He warned in January that shielding parts of the company from creditors would make it harder for the utility to buy electricity and serve its customers.

Commissioners Curt Hebert and Linda Key Breathitt, however, ruled that improving the subsidiary's credit would increase the likelihood that the company could build more power plants.

Judge delays decision

A federal judge has delayed until the end of the week a decision on whether the overseer of the state power grid can force generators to sell to it to avoid blackouts, even if the two main recipients of that emergency power, Edison and PG&E, can't pay for it.

The state has already committed an estimated \$10 billion to purchase power for Edison and PG&E customers, currently spending roughly \$45 million a day on short-term power purchases as the Davis administration tries to negotiate cheaper long-term contracts with wholesalers.

The power-buying and other fixes under consideration by Davis – including a state purchase of 26,000 miles of transmission lines – could cost consumers and taxpayers \$20 billion, or roughly \$590 for every California resident.

The bulk of the money would come from bond sales to be repaid by utility customers over many years.

PG&E and Edison spokesmen declined to comment on the transmission proposal. PG&E executives last week criticized Davis' plan, saying they would prefer permission to raise rates for their customers.

Major conservation bill to be heard today

A bill that could help reduce summer power needs by 500 megawatts – enough to light half a million homes – will be heard in the Revenue and Taxation Committee Thursday.

AB 29X (Kehoe-San Diego) would establish programs to replace old appliances, establish a grant and loan program to retrofit homes and businesses and would provide incentives for small businesses to reduce their energy usage.

Wall Street keeps close eye on California power talks

Wall Street analysts expressed concern Wednesday about the state's increasingly expensive moves to resolve California's electricity crisis. Power suppliers, meanwhile, urged the Davis administration to spend even more.

Standard & Poor's said it will keep the state on a credit watch "with negative implications" following the news last week that the state would need an additional \$500 million to buy power on the expensive spot market for customers of financially strapped Southern California Edison and Pacific Gas and Electric Co.

"There are still a lot of uncertainties. There has to be some sort of long-term solution soon or the state will start running out of money," said David G. Hitchcock of Standard & Poor's.

Meanwhile, a major supplier, Duke Energy, said it will not sign long-term contracts to provide cheaper power to the state until the Davis administration promises to pay for all emergency power bought on Edison's and PG&E's behalf by the manager of the state grid to avoid blackouts.

The state has said it will buy power, but only at reasonable prices. Any remaining power the Independent System Operator buys to prevent blackouts is being bought the day it's needed at prices that have exceeded \$1,200 per megawatt hour.

Because the DWR has refused to pay for such power, the ISO plans to bill PG&E and Edison, which have said they cannot pay the bills.

Another large wholesaler, Reliant Energy, said it is concerned about the ISO power purchases and overdue payment by the utilities, though it has not made resolution of either issue a precondition in its contract negotiations.

The increasing impatience on the financial front came as the Davis administration continued negotiating with Edison, PG&E and San Diego Gas & Electric, over his proposal to have the state acquire their transmission lines to help Edison and PG&E pay their debts.

Talks moved from San Francisco to Sacramento so Gov. Gray Davis could become involved if necessary.

Power authority bill approved by Senate

The California Senate on Tuesday gave Gov. Gray Davis more leverage in his negotiations with utility companies, approving legislation that would allow the state to buy or build power plants.

The bill to create a public power authority would involve state officials much more deeply in the energy business.

"With the passage of this bill . . . I think we can say deregulation in the state of California is officially dead," said Sen. Bill Morrow, R-San Juan Capistrano.

Skyrocketing wholesale electricity prices, caused by high natural gas prices and scarce supplies, have nearly driven the state's two largest utilities to bankruptcy.

The bill's author, Sen. John Burton, D-San Francisco, says creating a power authority will give the state more control over the wholesale market. State-owned power plants could charge lower prices, and building new plants could increase supply, easing wholesale prices.

The 24-14 vote was split down party lines, with all Republican senators voting against the measure. The bill now goes to the Assembly.

Ratepayer advocate Nettie Hoge -- who has long campaigned for public control of the state's power industry -- called it a significant, though tentative step.

Sen. Steve Peace, the La Mesa Democrat who was one of the primary authors of the state's 1996 energy deregulation law, has avoided much of the current debate, and has sought to blame the energy crisis on federal regulators' refusal to impose price caps on wholesale energy bills.

But he spoke in favor of the public power bill on Tuesday, urging the governor to seize the state's power plants, many of which are owned by Texas companies.

"This is the only choice the kidnappers have given us," he said. Either take control of the generation plants "or raise the Lone Star flag to the top of the Capitol..."

LA power sales to state reach \$200 million

The Department of Water and Power says it has sold the state nearly \$200 million in electricity, though the city has no guarantee it will see much of the money.

Officials said Tuesday that sales to the state will surpass \$200 million by April, thanks to average weekly sales of \$25 million a week.

Mayor Richard Riordan said he is working with the state to guarantee payment. But City Councilman Rudy Svorinich Jr. expressed concern about whether the state will make good on payments.